

Fairfax County Economic Index

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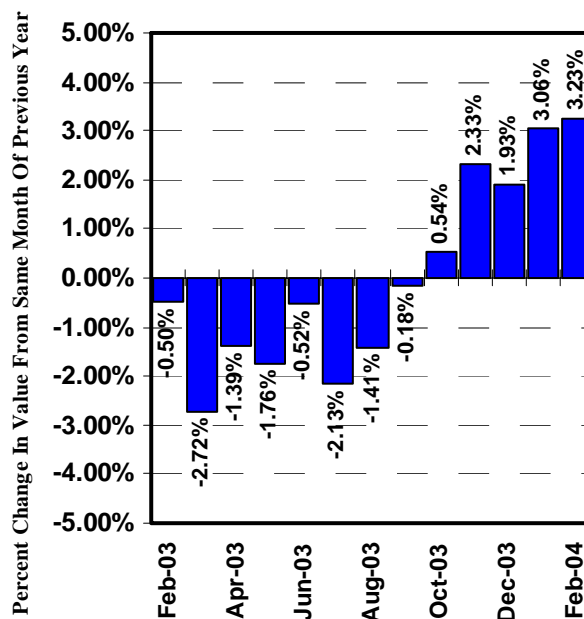
April 2004

Leading and Coincident Indicators Continue to Trend Higher

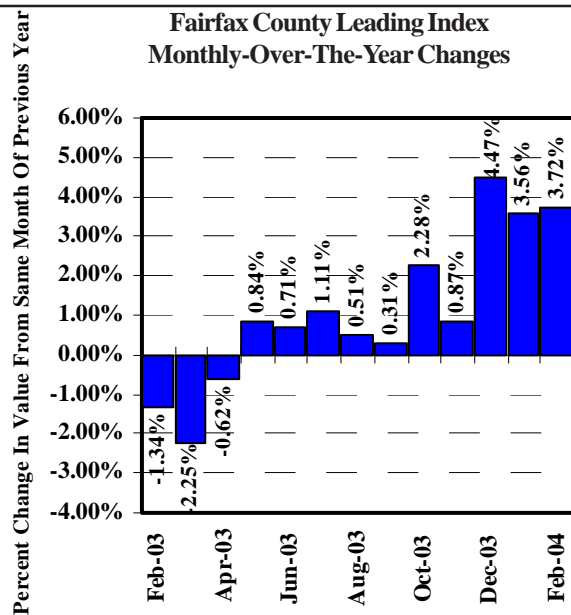
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, fell in February to 130.4, a decline of 0.7 percent. This is the Index's second month-to-month decline. Still, on a monthly over-the-year basis, it was up 3.2 percent over its February 2003 value and has exceeded last year's same-month values for five consecutive months as seen in the positive trend of the Index's 12-month moving average. In February, two of the Index's four component were negative.

- Consumer confidence (in the present) declined for a second month; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, decreased following two monthly gains; while,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, increased for a fourth consecutive month; and,
- Total employment grew slightly following decreases in the previous two months.

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, decreased to 106.6 in February for a loss of 1.17 percent. The Leading Index has been tracking higher since mid-2003 exceeding its previous year's same-month values for ten consecutive months starting in May 2003. This upward trend is clearly visible in the track of its 12-month moving average line that has regained its January 1999 level achieved in the later stages of the last expansion.

In February, all five of the Index's five components contributed to its decline.

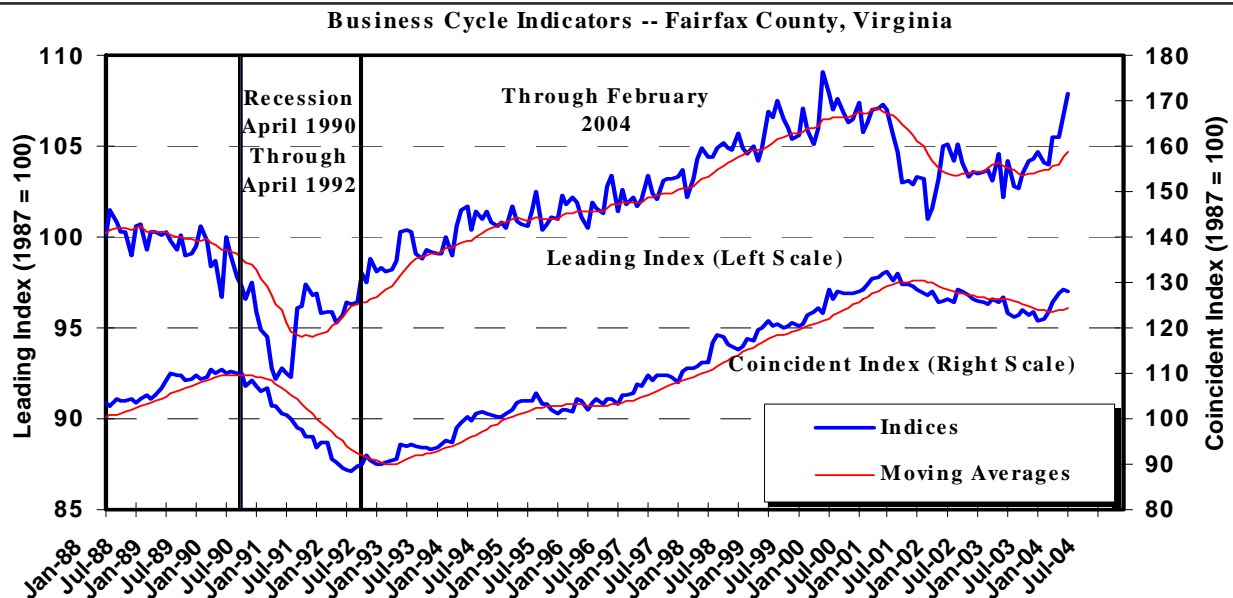
- New automobile registrations decreased in February following gains in the previous two months;
- Consumer expectations (consumer confidence six months hence) fell after having increased for four consecutive months;
- Residential building permits declined for the second time in six months;
- Initial claims for unemployment insurance increased (worsened) following its strong improvement in January; and,
- The total value of residential building permits fell for the fourth time in five months.

The Fairfax County economy was slowed for a second month by winter weather but still registered strong monthly over-the-year gains compared to same-month values in 2003. Despite two months of slower growth attributable largely to the unusually cold winter, the Fairfax County economy has substantially out-performed last year's trends. The Leading Index is up 3.7 percent and has grown for ten consecutive months while the Coincident Index is 3.2 percent higher and has out-performed its same-month values for five consecutive months. The sharp rise and long lead in the Leading Index provides an unambiguous signal of the County's economic expansion and its likely acceleration through 2004. The Coincident Index, which contracted only marginally over the 2001-2002 period, has now regained its upward trend and its momentum is expected to accelerate in the coming months.

CURRENT CONDITIONS

Month-to-month comparisons provide a measure of the economy's progression but they also are affected by short-term differences that can alter their normal patterns of performance. This has happened this year in both January and February where severe winter weather has dampened the building industry and also taken its toll on retail spending. News from Iraq and the early beginning to the Presidential election rhetoric appear to have eroded consumer confidence. Still, other key measures of the economy's health have confirmed its continuing expansion. At the national level, March's payroll employment report of 308,000 new jobs provided the most visible measure of the economy's transition from slow to fast growth. When the 1st quarter GDP report is issued shortly, it should confirm that the nation's economy was operating at better than 4 percent growth, up from last year's 3.1 percent rate.

At the local level, the Washington metropolitan area was reported to have added 54,900 payroll jobs in February for a 1.9 percent gain. More impressive was the comparison to the national payroll job gain of 113,000 for February—one of every two jobs nationwide was generated in the Washington metropolitan area. Not only did the Washington area lead the list among all metropolitan areas in generating new jobs but it continued to have the lowest unemployment rate at 3.2% and is one of only three metropolitan areas in the country with an unemployment rate below 4%.



Source: Center for Regional Analysis, George Mason University

Fairfax County, with 20 percent of the metropolitan area's residents, accounted for 30 percent of the area's job growth, adding an estimated 16,500 new jobs between February 2003 and February 2004, a gain of 2.45 percent. Additionally, February's unemployment rate dropped to 2 percent, down from 2.8 percent a year ago. By these measures, the County's economy performed well in February despite bad weather and consumer anxiety.

Interestingly, when consumer spending has been dampened due to weather or other temporary conditions, this spending is generally only deferred and is captured in a subsequent month. This is especially true when the underlying economic conditions are favorable. Consequently, the slower growth recorded in January and February is likely to cause above-average gains in March and April making these months' performances appear overly strong. By mid-year, these monthly variations will have smoothed out and in hindsight the first quarter will appear to have achieved greater economic growth than is currently reported.

The one bright spot on the spending side of the economy has been tourism. Hotel occupancy and revenues have increased through the winter and, with the normal ramp up in tourism during the spring and summer, it appears that the hospitality industry is on course for its best year since 2000.

NEAR-TERM OUTLOOK

The Leading Indices, nationally and locally, tell the story: these indices (National, Washington and Fairfax) have increased for ten consecutive months and their monthly over-the-year increases have been accelerating. With leads of six-plus months, the strengths of the indices are unified in pointing to accelerating growth over the year. At this stage of the expansion, strong and continuing job growth will become a normal occurrence. Consumer spending should also hold up but it will be business spending that will be the difference between last and this year's performance. Unfortunately, at the local level there is not a direct measure for business spending although payroll employment growth will provide a good proxy for this important trend.

How investors and consumers perceive the economy's health will be a key factor in sustaining its continuing growth. Further increases in energy prices and worsening conditions in Iraq could dampen the economy's expansion and an earlier-than-expected increase in interest rates (e.g. in June) in response to too rapid job growth and/or growing signs of inflation will also undermine investors' confidence. At this early stage in the expansion, and even though the economy is performing well, bad news could slow what otherwise appears to be a very good year for the economy.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Feb-04 Prelim.	Jan-04 Final	Feb-03 Final	Jan-04 to Feb-04	Feb-03 to Feb-04
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	130.43	131.35	126.34	-0.70	3.23
Leading Index (1987 = 100)	106.65	107.92	102.83	-1.17	3.72
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	606,125	605,858	591,655	0.04	2.45
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	<i>598,124</i>	<i>597,939</i>	<i>583,845</i>	<i>0.03</i>	<i>2.45</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	377	353	368	6.71	2.36
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>562</i>	<i>535</i>	<i>537</i>	<i>4.92</i>	<i>4.63</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	8,186	9,449	7,151	-13.36	14.48
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>10,362</i>	<i>9,790</i>	<i>9,262</i>	<i>5.84</i>	<i>11.88</i>
South Atlantic Consumer Confidence	103.8	106.6	81.6	-2.63	27.21
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	6,328	7,200	5,675	-12.11	11.51
<i>Automobile Registrations (Unadjusted)</i>	<i>5,077</i>	<i>6,218</i>	<i>4,553</i>	<i>-18.35</i>	<i>11.51</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,285	1,085	1,620	18.51	-20.67
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,393</i>	<i>1,529</i>	<i>1,756</i>	<i>-8.89</i>	<i>-20.67</i>
South Atlantic Consumer Expectations (Unadjusted)	105.3	111.6	77.1	-5.65	36.58
Residential Building Permits (Number of Units, Seasonally Adjusted)	630	798	306	-21.12	105.79
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>463</i>	<i>587</i>	<i>263</i>	<i>-21.12</i>	<i>76.05</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	29,181	31,331	21,803	-6.86	33.84
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>40,007</i>	<i>42,830</i>	<i>29,258</i>	<i>-6.59</i>	<i>36.74</i>
Fairfax County Labor Force (January 2004 Not Available At Press Time)					
Total Labor Force (Seasonally Adjusted)	581,810	582,389	573,231	-0.10	1.50
<i>Total Labor Force (Unadjusted)</i>	<i>576,522</i>	<i>575,477</i>	<i>568,021</i>	<i>0.18</i>	<i>1.50</i>
Employed Labor Force (Seasonally Adjusted)	570,019	569,919	557,282	0.02	2.29
<i>Employed Labor Force (Unadjusted)</i>	<i>564,994</i>	<i>562,965</i>	<i>552,370</i>	<i>0.36</i>	<i>2.29</i>
Unemployed Labor Force (Seasonally Adjusted)	11,792	12,471	15,949	-5.45	-26.07
<i>Unemployed Labor Force (Unadjusted)</i>	<i>11,528</i>	<i>12,512</i>	<i>15,651</i>	<i>-7.86</i>	<i>-26.34</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.03	2.14	2.78	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.00</i>	<i>2.17</i>	<i>2.76</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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